

FISCAL NOTE

Bill #: HB 3

Title: Revise school funding

Primary Sponsor: Glaser, B

Status: As Introduced

Sponsor signature

Date

David Ewer, Budget Director

Date

Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	\$0	\$138,370,000
Revenue:		
General Fund	\$0	\$0
Net Impact on General Fund Balance:	\$0	(\$138,370,000)

<input checked="" type="checkbox"/> Significant Local Gov. Impact	<input checked="" type="checkbox"/> Technical Concerns
<input type="checkbox"/> Included in the Executive Budget	<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Dedicated Revenue Form Attached	<input type="checkbox"/> Needs an appropriation

Fiscal Analysis

ASSUMPTIONS:

Office of Public Instruction

1. The average number belonging (ANB) for a school district in FY2007 is the current year ANB or a 3-year average ANB, whichever generates the highest maximum general fund budget. The ANB used for budgeting purposes in FY2007 is estimated to be as follows:

<u>FY 2007</u>	<u>Present Law</u>
K-6 ANB	72,415
7-8 ANB	24,547
9-12 ANB	<u>50,199</u>
Total ANB	147,161

2. The basic and per-ANB entitlements are set as follows:

	<u>FY 2007</u>
Basic entitlement Elementary	\$20,718
Basic entitlement High School	\$230,199
Per-ANB entitlement Elementary	\$4,456
Per-ANB entitlement High School	\$5,704
Direct State Aid Percentage	44.7%

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3. The statewide taxable valuation (net of tax increment districts) is \$1,897,655,540 for TY2005. The taxable valuation will increase by 3.5 percent in TY 2006.
4. Under current statute, direct state aid will be \$351.11 million in FY 2007. Guaranteed tax base aid to K-12 public schools will be \$112.29 million in FY 2007. County retirement costs will be \$24.46 million in FY 2007.
5. The state special education appropriation is assumed to be \$39.35 million in FY 2007.
6. HB 3 creates a per-classroom payment to public school districts in the amount of \$4,000 per classroom unit. The estimated number of classroom units funded by HB 3 is 8,793. The cost of the per-classroom payment is \$35.172 million for FY 2007.
7. HB 3 creates a per-student payment for at-risk students in an amount of \$64.96 per-ANB. The cost of the per-student payment is \$9.560 million.
8. HB 3 creates a free and reduced-price lunch per-student payment of \$193.20 per-ANB. The cost of the free and reduced-price lunch per-student payment is \$28.432 million for FY 2007.
9. HB 3 creates a gifted and talented per-student payment of \$27.35 per-ANB. The cost of the gifted and talented per-student payment is \$4.025 million for FY 2007.
10. The total public school enrollment as of October 3, 2005 was 145,259.
11. HB 3 increases the direct state aid percentage from 44.7% to 52%. The cost to the state general fund of this increase in the state share is \$57.274 million. Local property taxes will be reduced by a like amount.
12. It is estimated that 90% of \$77.188 million of new on-going monies provided to school districts in FY 2007 will be directed into salaries. Benefits charged to the county retirement fund are estimated to be 15.5% of salaries. The state GTB share of the retirement costs is estimated to be 27% or \$2.907 million ($\$77,187,937 \times 90\% \times 15.5\% \times 27\%$). The remaining \$7.860 million will be paid by county taxpayers.
13. HB 3 increases school district general fund spending authority by \$77.188 million.

School for the Deaf and Blind

14. HB 3 increases funding through a statutory appropriation for the School for the Deaf and Blind by \$1.000 million as follows:

Salary adjustment to bring licensed professionals to parity	\$319,949
Professional Development	30,000
Library Support	19,000
Replace Textbooks	25,000
Summer Skills Programs (0.77 FTE)	38,000
Dues to accrediting agencies and research to meet NCLB	9,000
Expansion of Early Intervention for Hearing Impaired (1.92 FTE)	47,100
Expansion of Outreach for Hearing Impaired (6 consultants, 4.61 FTE)	447,506
Statewide Coordination of Hearing Impaired Infants and Tracking Services	64,445
Total	\$1,000,000

FISCAL IMPACT:

	<u>FY 2006</u> <u>Difference</u>	<u>FY 2007</u> <u>Difference</u>
<u>Expenditures:</u>		
Montana School for the Deaf and Blind	\$0	\$1,000,000
Local Assistance – District General Fund	0	134,463,000
Local Assistance – Retirement GTB	0	2,907,000
TOTAL	\$0	\$138,370,000

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	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
<u>Funding of Expenditures:</u>		
General Fund (01)	\$0	\$138,370,000
 <u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General fund (01)	\$0	(\$138,370,000)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. K-12 public school districts can respond to the funding increases provided in HB 3 by increasing general fund spending and/or providing property tax relief.
 - Districts that are currently spending at the BASE budget level will be required to increase spending.
 - No district property taxes will be required to support the new funding levels provided in HB 3.
 - Districts spending above the BASE could chose to reduce local levies instead of increasing budgets.
2. District property taxes to support school district BASE budgets will be reduced by \$57.274 million in FY 2007 as a result of increasing the direct state aid percentage to 52%.
3. County property taxes are estimated to increase by \$7.860 million in FY 2007 to fund increases for county retirement.

LONG-RANGE IMPACTS:

1. HB 3 eliminates the June 30, 2007 sunset of three-year averaging. If HB3 does not pass, the state savings from removal of three-year averaging costs would be approximately \$14.0 million each year.
2. HB 3 eliminates the June 30, 2007 sunset of the per ANB entitlement inflationary increases and the elimination of \$250 for elementary ANB and \$100 for high school ANB set in place for FY 2006 and FY 2007. HB 3 allows these increases to continue in the formula. If HB 3 does not pass, the state savings from removal of these increases would be approximately \$35 million each year.
3. HB 3 has no termination date for the new components added within the bill. The on-going annual cost to the state would be approximately \$138.270 million including \$1.000 million for the School for the Deaf and Blind, \$134.463 million for K-12 public schools and \$2.907 million for GTB retirement costs.

TECHNICAL NOTES:

1. Section 3 of HB 3 defines the Free and Reduced-Price Lunch per-student payment as being distributed to public school districts for each student who is eligible for free and reduced-price lunches in the school district. However, Section 8 distributes the Free and Reduced-Price Lunch per-student payment to a school district based on the total ANB of the district.
2. HB 3, 20-9-306(2)(a) raises the direct state aid percentage to 52%, but retains the guaranteed tax base aid in 20-9-306 (2)(b) percentage at 35.3%. The total BASE budget appears to be 87.3% (52% + 35.3%), but 20-9-306(3) retains the BASE budget at 80% of these entitlements. These sections appear to be in conflict.